03.

SRI POLICY

TOWARDS THE ALIGNMENT
WITH INTERNATIONAL
GLOBAL WARMING
CONTAINMENT OBJECTIVES

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SRI POLICY

TOWARDS THE ALIGNMENT WITH INTERNATIONAL GLOBAL WARMING CONTAINMENT OBJECTIVES

SAGARIKA CHATTERJEE,
ASSOCIATE DIRECTOR, POLICY AND RESEARCH, PRI

The French Energy Transition for Green Growth Law sets new norms of ambition among global policy makers, business and investors. This ambition is critical to peaking emissions by 2020. PRI encourages asset owners in strong implementation of the law. Firstly, the disclosure process can prompt thoughtful internal discussion and better oversight of climate risk. Secondly, disclosure can assist beneficiaries and policy makers in understanding how climate risk and opportunity are being managed. We encourage ERAFP and like-minded investment managers in taking actions that contribute towards "below 2 degrees." As an early adopter of disclosure and Montreal Carbon Pledge signatory, ERAFP is well-positioned for evolving beneficiary and policy maker expectations.

One of the provisions arising from international negotiations to limit global warming is particularly important for French institutional investors: article 173 of the law on energy transition for green growth. This law and its associated implementing decree require them, without exception and as from their 2016 annual reports next year, to publish information on their environmental and social approach, specifically as this relates to reducing global warming.

In this 2015 public report, ERAFP has decided to trial the publication of this information in the recommended format, notably to gauge the amount of progress it has yet to achieve. It presents the information in the following order:

- **presentation** of the general environmental, social and governance (ESG) approach;
- **ESG information** provided to contributors;
- **ESG analysis** method;
- **impact** of the ESG approach on the implementation of the investment policy, asset class by asset class;
- **shareholder engagement strategy** and related initiatives.

GENERAL
ESG APPROACH

THE SCHEME'S SRI APPROACH IS ORIGINAL IN A NUMBER OF RESPECTS:

- **the board of directors has defined its own SRI guidelines:** while the board of directors and management naturally enlisted the services of outside providers such as consultants and rating agencies, it was the board itself that defined guidelines tailored to the directors' requirements and values, and placed under their permanent supervision;
- **the policy's content is '100% SRI',** in other words the SRI Charter applies to all of the Scheme's investments and takes into account the specific features of each asset class.

THE SCHEME'S SRI APPROACH IS OVERALL:

- **it concerns** not only all of the Scheme's investments but also applies to all the investment phases, from the first stage of asset allocation to the post-investment stage of monitoring the companies whose shares are included in the portfolio;
- **it is based** on a wide, cross-cutting selection of stocks rather than a large number of single-themed sub-portfolios.

For an investor of ERAFP's size that wishes to adopt a uniform approach for all of the asset classes in which it invests, the best in class approach seems the most appropriate, as it focuses on the links between the various considerations and the various issuers rather than tackling each issue in isolation. Conversely, it might seem inconsistent to exclude certain business sectors completely given that the portfolio includes issuers from other sectors or other asset classes that have direct links to the excluded sectors.

The application of the best in class principle results in the inclusion in the guidelines of quantitative rules that make it possible to determine the eligible investment universe. These rules are defined for each asset class with the aim of encouraging each one to improve. Generally speaking this means:

- excluding no business sector, but promoting the most responsible issuers within each sector and, more generally, within groups of comparable issuers;
- showcasing progress made;
- monitoring and supporting issuers that have adopted a continuous improvement approach.

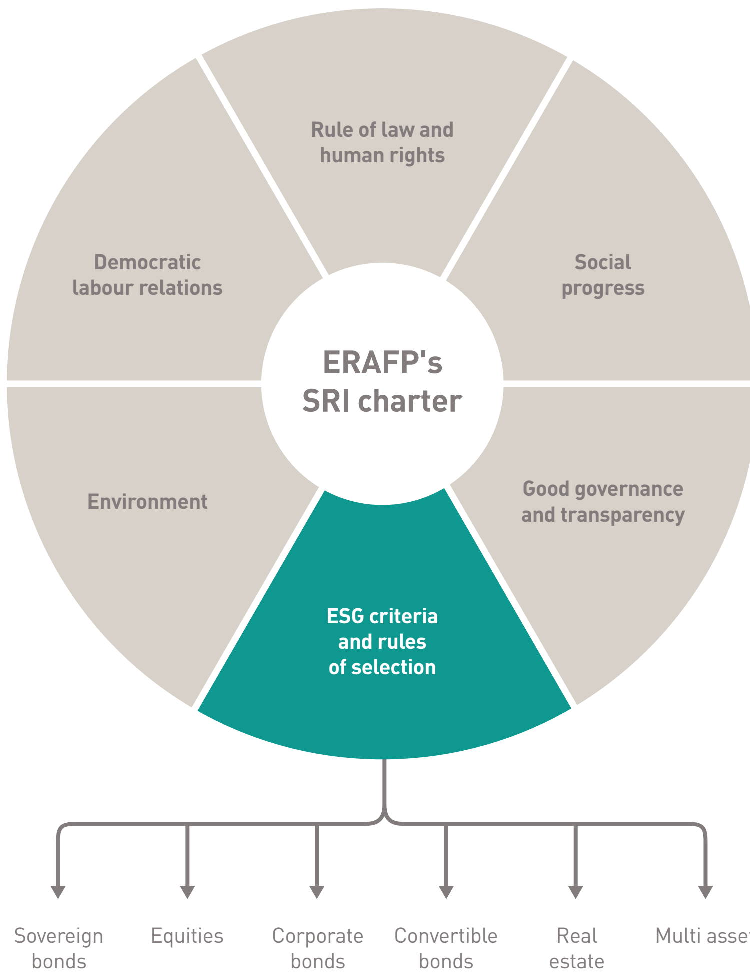
SRI **CHARTER**

ERAFP's board of directors resolved on 10 November 2005 to adopt an investment policy that takes into account, firmly and permanently, the pursuit of the public interest. Adopted in March 2006, the Charter specifies the orientations, tools and resources needed to apply this socially responsible investment policy.

PHILIPPE LAURENT,
CHAIR OF THE INVESTMENT POLICY MONITORING COMMITTEE

The best in class SRI approach means we do not have to choose between short-view financial management that is indifferent to companies' social and environmental responsibilities and a principled moral stance. By selecting the best in each sector, it takes the world as it is; combined with shareholder engagement, it makes it possible to gradually improve issuers' practices.

AN SRI CHARTER BROKEN DOWN INTO EVALUATION CRITERIA FOR THE VARIOUS ASSET CLASSES



ESG INFORMATION PROVIDED TO CONTRIBUTORS

Since ERAFP's inception, its socially responsible investment policy has been developed through the pro-active initiatives of its board of directors, on which the Scheme's active contributors are represented by union organisations, alongside contributing employers from the public sector.

Reporting to contributors on the implementation of environmental, social and governance criteria in issuer selection is therefore one of the very principles underlying the SRI policy.

In recent years, public expectations have increased as regards investors' role in the transition towards a carbon-free economy. Based on this observation, ERAFP has decided to raise the profile of its action and, through the public domain, communicate directly with its 4.5 million active contributors. These contributors are also citizens who care about such issues as the climate, and ERAFP intends, through this channel in particular, to draw their attention to the need to take into account the social and environmental consequences of the investments made for them and from which they benefit.

4.5 M **ACTIVE** CONTRIBUTORS

Every year, ERAFP publishes its public report, in which it describes its socially responsible investment approach and the integration of environmental, social and governance criteria in the various stages of issuer selection.

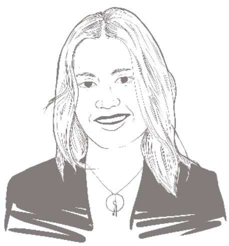
It promotes and offers to explain in detail its SRI policy when it meets public sector employers, an example of this being though trade shows.

The purpose of overhauling ERAFP's website in 2015 was to offer contributors the chance to find out about, over and above pensions information, its investment policy, and thereby enable them to discover and even share with those that they are in contact with the uses to which their contributions are put.

This report, along with the initiatives launched to align the investment portfolio with international global warming limitation objectives, are also initial tools for exchanging with the organisations that most actively lobby institutional investors to factor climate considerations into their decisions.

ERAFP has a very long-term responsibility towards its contributors and beneficiaries. Global warming represents - among other things - risks for issuers and the investors that finance them. Driven by its fiduciary duty towards its contributors, ERAFP actively seeks to raise the awareness of the various stakeholders about the importance of changing economic structures with a view to decarbonization.

ESG
ANALYSIS METHOD



STÉPHANIE PFEIFER,
IIGCC CHIEF EXECUTIVE

In personal thanks to IIGCC, Christiana Figueres, Executive Secretary of the U.N. Framework Convention on Climate Change, recognised the vital role played by investor networks in generating the momentum required to secure a successful outcome from the Paris climate talks. ERAFP played a big role in this through initiatives such as the Global Investor Statement, the event it hosted with the OECD and IIGCC during COP21, and via the real time comments given by Philippe Desfosses to the media only minutes after Laurent Fabius brought the gavel down on the Paris Agreement at Le Bourget on 12 December.

ADHERENCE TO CODES OR INITIATIVES

The financial sector can only adopt a longer-term vision in its practices and systematically take into consideration environmental, social and governance factors if responsible investors work together to put pressure on the sector as a whole.

With this in mind, in 2006 ERAFP became a signatory of the United Nations' Principles for Responsible Investment (PRI) and has duly undertaken to apply each of these principles.

1 - **Take environmental, social and governance (ESG) criteria into consideration in their investment analysis and decision-making processes;**

2 - **Be active investors and take ESG criteria into account in their shareholder policies and practices;**

3 - **Request entities to publish appropriate information about ESG matters;**

4 - **Encourage the acceptance and application of the Principles by asset managers;**

5 - **Work together to apply the Principles more effectively;**

6 - **Report on their activities and their progress as regards application of the Principles.**

Each year, in accordance with the sixth principle, ERAFP completes a questionnaire assessing its implementation of the Principles for Responsible Investment which is sent to the PRI's secretariat and published[1].

This report provides - non-exhaustively - the information that illustrates the effective application of these principles.

As well as the PRI, in 2012 ERAFP joined two international initiatives: the International Investors Group on Climate Change (IIGCC) and the Extractive Industries Transparency Initiative (EITI), which enable it to lobby issuers and regulatory bodies to promote more responsible practices as regards two key themes for ERAFP:

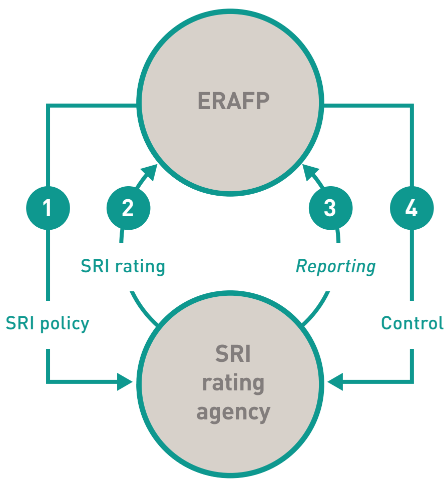
- reducing climate change;
- financial transparency.

Involvement in this type of initiative is borne out of ERAFP's shareholder engagement approach, which is described in more detail on page 42.

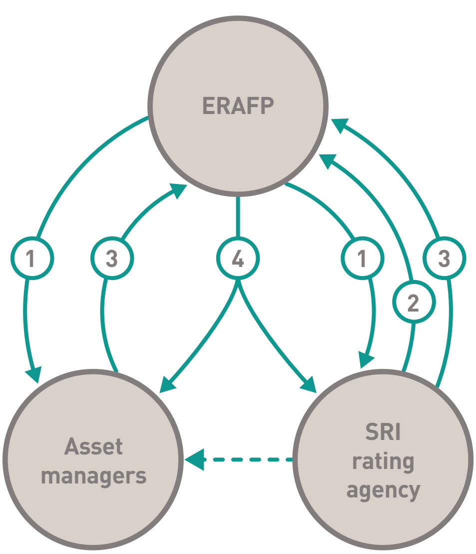
1 http://www.unpri.org/viewer/?file=wp-content/uploads/Merged_Public_Transparency_Report_ERAFP-French-public-service-additional-pension-scheme_2014.pdf

ROLES OF THE VARIOUS ENTITIES AND CONTROL PROCEDURES

Direct bond management



Delegated management



1 - SRI policy

- Definition of the investment policy
- Decision regarding any differences of interpretation
- Decisions regarding changes to the Charter and guidelines

2 - SRI rating

- A priori SRI data for the management company

3 - Reporting

- Quarterly reporting
- Regular reporting

4 - Control

- Monitoring of application of the SRI approach controls and possible requests for corrections of investments
- Reviews of annual reports (managers, branches, committee, etc.)

MORE DETAILS ABOUT THE ERAFP'S REPORTS AT THE PRI'S SECRETARIAT

ERAFP

Board of directors (based on the CSPP's work)

The board of directors:

- **sets** the general orientation of the SRI policy;
- **ensures** that it is effectively applied.

To enable it to be truly responsive, the board is consistently and fully informed, notably through regular meetings of its investment policy monitoring committee (CSPP).

ERAFP HAD 24 **DEDICATED** MANDATES UNDER MANAGEMENT WITH MANAGEMENT COMPANIES

ERAFP's management

ERAFP's management plays a number of roles:

- **it directly implements the SRI guidelines** in the area of internal bond management, which, under the Scheme's currently applicable regulations, concerns sovereign and equivalent bonds;
- **it ensures** that the external asset management companies apply the SRI policy, whether in terms of using the best in class principle for securities selection or applying ERAFP's voting policy at general shareholder meetings;
- **it ensures** that contracts entered into with the SRI rating agencies are correctly performed;
- **it reports** to the board of directors and the CSPP on implementation of the SRI policy, and assists directors with the preparation of their business.

Rating agencies

The rating agencies – currently Vigeo and its partner Oekom – are responsible for analysing the asset portfolio quarterly and providing detailed reports on each sub-portfolio for submission to ERAFP.

Asset management companies

The management of asset classes other than sovereign and equivalent bonds is almost entirely delegated to asset management companies.

At end-2015, ERAFP had 24 dedicated mandates under management with management companies, which were charged with investing on its behalf in listed company shares, corporate bonds, convertible bonds and real estate. Under these mandates, each management company must comply with ERAFP's SRI guidelines *(PRI - Principle 4)*. ERAFP holds six-monthly investment committee meetings with each of its mandatees to discuss matters such as the mandates' SRI aspects.

GENERAL DESCRIPTION OF ESG RISKS

Like many pension funds and insurers, ERAFP makes a commitment to its contributors and beneficiaries lasting decades. Unlike some others, however, ERAFP enjoys a relatively unusual advantage: as a young, mandatory scheme it will benefit from significant net financial inflows (contributions net of benefits paid and investment income), which can also be quite accurately forecast, over at least the next 30 years. The Scheme will then move into 'cruising speed'. While these factors give it a very long-term responsibility with regard to its beneficiaries, they also provide it with the resources to implement a commensurate investment policy. This obligation and this capacity to take a very long view are what make ERAFP strive to integrate, in as detailed a way possible, environmental, social and governance criteria into its investment policy.

While the specific ESG factors to take into account vary depending on the category, geographical exposure and activity of the issuer in question, it can be said in general, non-exhaustive terms that:

- a given state's debt is sustainable only if all the conditions for lasting growth are met: an educated, trained population, high-quality infrastructures and controlled environmental impacts;
- a company will only be profitable over the long term if:
  + it anticipates its future needs in terms of key skills and trains its employees accordingly,
  + it puts in place the governance mechanisms needed to carry out its business efficiently,
  + it controls the costs associated with the consumption of natural resources and anticipates future environmental regulations.

Lastly, in analysing issues on a whole-portfolio basis, a universal investor such as ERAFP can only insist on the necessity of adopting a cross-cutting approach. For example, the resources that states need to create the conditions for future growth depend partly on their ability to collect taxes from companies. Similarly, a territory can only attract companies if its population is well educated and trained. Lastly, the quality of life within a country cannot be assessed without taking into consideration the environmental impacts of the economic players that do business there.

THE QUALITY OF LIFE WITHIN A COUNTRY CANNOT BE ASSESSED WITHOUT TAKING INTO CONSIDERATION THE ENVIRONMENTAL IMPACTS OF THE ECONOMIC PLAYERS THAT DO BUSINESS THERE.

SELECTION OF THE MAIN CRITERIA

40 EVALUATION **CRITERIA**

ERAFP's SRI Charter, which was drawn up as a result of its board of directors' engagement, is based on French public service values. It is applied to all of the Scheme's investments and broken down into more than 40 evaluation criteria adapted to the specific features of each category of issuer. While each issuer's specific context systematically dictates the analysis of these criteria, the Scheme considers some to be key and therefore attributes more weight to them, regardless of the issuer's geographic location or activity.

A charter defining 5 key value areas

1 - Rule of law and human rights
- The absence of discrimination, in all its forms.
- Freedom of conscience and of expression.
- Human rights in the workplace.
- The fight against corruption and money laundering.

2 - Social progress
- Compliance with the fundamental rules of labour law.
- Contribution to employment development.
- Implementation of forward-looking employment strategies.
- Quality of contractual guarantees.
- Payroll/shareholder compensation ratio (for companies), *etc*.

3 - Democratic labour relations
- Respect for the rights of trade unions and the right to strike, freedom of affiliation and the allocation of resources for staff representatives.
- The existence and role of participatory or advisory bodies (works councils, group councils, joint technical committees or their equivalents, *etc*.).
- Resources allocated to the health and safety committee, or its equivalent, and the extent to which its opinions are followed.

4 - Environment
- Prevention of environmental impacts (water, air, waste, *etc*.).
- Environmental risk control (pollution risks, control of the impact of products and services during their life cycle).
- Limitation of greenhouse gas emissions.
- The preservation of biodiversity.

5 - Good governance and transparency

- Good governance (balance of powers and effectiveness of decision-making and executive bodies, effectiveness of audit and control mechanisms, decision-making process for executive compensation, traceability of decisions, *etc*.).
- Correct application of legal or fiscal rules or any higher standards to which the issuers bind themselves.
- Compliance with ethical rules (rejection of tax havens, the fight against money laundering, the existence of professional codes of conduct, *etc*.).
- An open approach to relations with all stakeholders, whether individuals or legal entities.
- Transparency about operations and financial performance.

BEST IN CLASS AND SHAREHOLDER ENGAGEMENT

As mentioned earlier, ERAFP has selected a best in class approach to take into consideration the ESG criteria underlying its SRI Charter for all its investments. Operationally, this principle takes the form of detailed rules that make it possible to determine, based on the scores that the issuers obtain for ERAFP's SRI criteria, those that can be considered as the best in their category.

For large listed companies, for example, the best in class principle is applied by implementing two successive filters.

If this SRI approach were limited to the application of quantitative rules established to define an eligible investment universe, it would preclude part of ERAFP's responsibility as well as an important lever available to it as a shareholder or creditor.

This is because ERAFP intends to be an active shareholder and, to that end, maintain dialogue or engage with those issuers in which it invests or with the authorities that define its investment framework. Accordingly, in 2012 ERAFP adopted shareholder engagement guidelines, which it updates yearly. They establish priority engagement themes for the year as well as the voting policy that ERAFP's delegated asset managers must apply at general meetings.

ERAFP's SRI strategy is summarised in the following diagram:

MORE DETAILS ABOUT ERAFP'S SRI POLICY

	Investment process	Examples
UPSTREAM		
	Regulatory commitment	IIGCC* « policy programme »
	'Non-targeted' collaborative commitment	ITIE*
		RE 100*
INVESTMENT		
	Investment/securities selection rules	SRI approach: - SRI charter - SRI criteria guidelines - Best in class rules Decarbonisation
	Targeted thematic investments	Green bonds (BEI, Île-de-France) Thematic funds
DOWNSTREAM		
	Investment compliance control	Ex-post control by Vigeo
	Targeted shareholder commitment	PRIs' clearing house: Social standards in the supply chain, corruption, etc.
		Dialogue with companies in the oil sector regarding exploration and production activities in the Arctic via Mirova [and] with European electricity producers regarding their carbon strategy via IIGCC
	Voting at shareholders' meetings	Dedicated voting policy: support of shareholders' resolutions, *etc.*

* See page 43.

MEASURING THE PORTFOLIO'S EXPOSURE TO CLIMATE RISKS

The consequences of climate change are probably one of the risk factors most likely to have a long-term impact on the valuation of ERAFP's assets. That is why, in breaking down the SRI Charter into more detailed issuer evaluation rules, ERAFP integrated criteria designed to better determine the level of these issuers' exposure to the various dimensions of climate risk.

In particular, under the 'environment' value of ERAFP's SRI Charter, **the Limitation of greenhouse gas emissions** criterion makes it possible to assess the commitments that issuers have made, the measures they have adopted and the tangible results they have achieved as regards containing and reducing the greenhouse gas emissions associated with their activity. The listed and unlisted companies, the states and the other issuers that score most highly on this criterion will probably be the best placed to cope with the adjustments needed as a result of climate change measures, such as more stringent regulations, the introduction of a carbon price, client and investor expectations and increased vigilance by civil society.

In order to estimate the degree of control that issuers have over the physical risks associated with climate change (increasing scarcity of natural resources, especially water, increased occurrence of extreme weather events, impacts on biodiversity, etc.) ERAFP also has a number of criteria within its SRI guidelines, in particular **Impact prevention as regards water, Preservation of biodiversity** and **Management of pollution risks.**

Conversely, ERAFP's SRI environment value criterion relating to the **Innovative product and services offer** makes it possible to promote companies that offer innovative solutions to sustainable development challenges, particularly in the area of the energy and ecological transition.

Monitoring an asset portfolio's average consolidated scores for these criteria can be a way of estimating that portfolio's exposure to climate change-associated risks. Such an indicator is difficult to interpret, however, and does not provide a detailed picture of the real impact of ERAFP's assets on the environment.

The search for a better understanding of a portfolio's degree of exposure to the transitional risks associated with climate change has led investors to acquire specific monitoring tools. Measurement of a portfolio's **carbon footprint** is an example of this approach. It involves using greenhouse gas emissions data on portfolio issuers to calculate the carbon intensity of the consolidated portfolio.

ERAFP INTEGRATED CRITERIA DESIGNED TO BETTER DETERMINE **THE LEVEL OF THESE ISSUERS' EXPOSURE TO THE VARIOUS DIMENSIONS OF CLIMATE RISK**

There are a number of different methods of measuring carbon footprint, each one including a certain number of biases.

	MEASUREMENT OF THE INVESTOR'S CARBON 'RESPONSIBILITY'	MEASUREMENT OF THE INVESTOR'S CARBON 'RISK' EXPOSURE
Calculation of absolute emissions	**At issuer level:** factoring in of non-normalised CO_2 emissions	
	Allocation to the investor of some of these emissions in proportion to its share of the issuer's: - capital (for an equity investment) or - debt (for a bond investment) or - enterprise value (capital + debt, applicable to either a bond or an equity investment) 1	
	Aggregation at portfolio level: sum of the CO_2 emissions attributable to the investor.	
	Unit: CO_2 emissions per unit of invested amount	
Calculation of the carbon intensity	**At issuer level:** factoring in of carbon intensity, in terms of CO_2 per unit of either revenue (companies) or GDP (countries)	**At issuer level:** factoring in of carbon intensity, in terms of CO_2 per unit of either revenue (companies) or GDP (countries)
	Allocation to the investor of some of the emissions/ revenue in proportion to its share of the issuer's: - capital (for an equity investment) or - debt (for a bond investment) or - enterprise value (for either a bond or an equity investment) 2	3
	Aggregation at portfolio level: sum of the CO_2 emission shares attributable to the investor.	**Aggregation at portfolio level:** average issuer carbon intensity weighted for their respective proportion of the portfolio
	Normalisation (unit): CO_2 emissions per amount invested and per unit of revenue generated (attributable emissions / attributable revenue)	**Normalisation (unit):** CO_2 emissions per unit of revenue generated (weighted average)

NB.: In 2013 and 2014, ERAFP used the second, investor carbon 'responsibility' measurement method, based on carbon intensity. In 2015, it used the third method, which measures the investor's carbon 'risk', based on carbon intensity.

Of the methods presented above, the third strikes us as the most appropriate for factoring in the exposure of ERAFP's portfolios to the transitional risk associated with climate change. There are a number of reasons for this:

- **Investor 'responsibility' measurements** involve allocating a share of portfolio issuers' CO_2 emissions to the investor, based on its respective ownership share of the capital, debt or enterprise value, as appropriate, of the portfolio security issuers.
  The underlying idea is that as a shareholder or creditor, an investor is responsible for a share of the CO_2 emissions of the entity in question.
  + To our mind, these methods present a major limitation: at constant CO_2 emission and activity levels, the share of a company's emissions attributable to an investor fluctuates based on the company's capitalisation, debt level or, more generally, financial structure. For example, the holder of a bond in a company whose overall debt increased would be allocated a smaller share of that company's CO_2 emissions, whereas the company's emissions and activity levels may have remained the same.
    Similarly, the contribution to a portfolio's carbon footprint of two companies that have the same weight in the portfolio, the same level of CO_2 emissions, the same activity, the same geographical exposure and the same revenue varies depending on the market capitalisation or level of debt of each company. Yet these two companies have the same exposure to the transitional risk associated with climate change: indeed, they would have to bear the same level of costs or constraints if a carbon 'tax' or binding regulation came into force.
    For these reasons, these methodologies do not seem to us to be the most appropriate for factoring in a portfolio's exposure to the transitional risk associated with climate change.
  + Furthermore, for a universal investor such as ERAFP, which invests in various asset classes and seeks to adopt a cross-cutting approach that handles extra-financial considerations consistently across its entire portfolio, these methods have the disadvantage of being difficult to transpose into certain asset classes. In particular, to us they seem inappropriate for calculating a sovereign portfolio's carbon footprint, insofar as, at relatively equivalent levels of development, countries' debt levels can differ considerably; in a portfolio, the 'carbon' contribution of a country with very little debt that emits little CO_2 could be higher than that of a highly indebted country with a poor greenhouse gas emissions record.

THE SO-CALLED CARBON RISK EXPOSURE METHOD SEEMS THE MOST RELEVANT TO US

- **An alternative approach** consists in considering that a portfolio's exposure to climate risk is reflected by the average carbon intensity (CO_2 emissions normalised by revenue) of its constituent companies weighted by their respective weights in the portfolio. This measurement, while providing no information on indirect CO_2 emissions or those attributable to ERAFP's investments, circumvents the biases mentioned above and can be applied to all asset classes. ERAFP therefore decided to use this approach in the context of this report.

IN 2015, AN EXTENSION OF THE SCOPE OF **CARBON FOOTPRINT** MEASUREMENT

ERAFP decided to appoint Trucost to measure its portfolio's carbon footprint at end-2015. As regards companies, this agency prioritises the use of data that they provide on their direct greenhouse gas emissions (scope 1) and indirect greenhouse gas emissions (scope 2 and first-tier suppliers). As regards countries, Trucost has partnered with Beyond Ratings in order to calculate the carbon footprint of ERAFP's sovereign portfolio: this involves factoring in not only countries' territorial greenhouse gas emissions but also the emissions associated with the carbon content of their imports and exports.

IMPLEMENTATION OF THE **INVESTMENT POLICY**

For ERAFP, which has been a fully socially responsible investor since inception, SRI comes into play less in terms of making changes to our investment policy than in assessing the consequences of our choices.

Asset class by asset class, mirroring the portfolio's financial profile, it measures issuers' consolidated ESG rating results and analyses changes therein over the year. It is worth noting that ERAFP's best in class approach remains selective for issuers, as almost half of the companies in the benchmark indices are excluded from its investment universe.

When available, the sub-portfolio's carbon footprint is presented after this analysis and a brief explanation made of how it was measured. In 2015, this approach was extended from the equity portfolio to the public sector and corporate bond portfolios, excluding convertible bonds, thereby covering around 87% of ERAFP's total assets. Based on the initial results, the scale of improvement is quite clearly visible, particularly for corporate bonds.

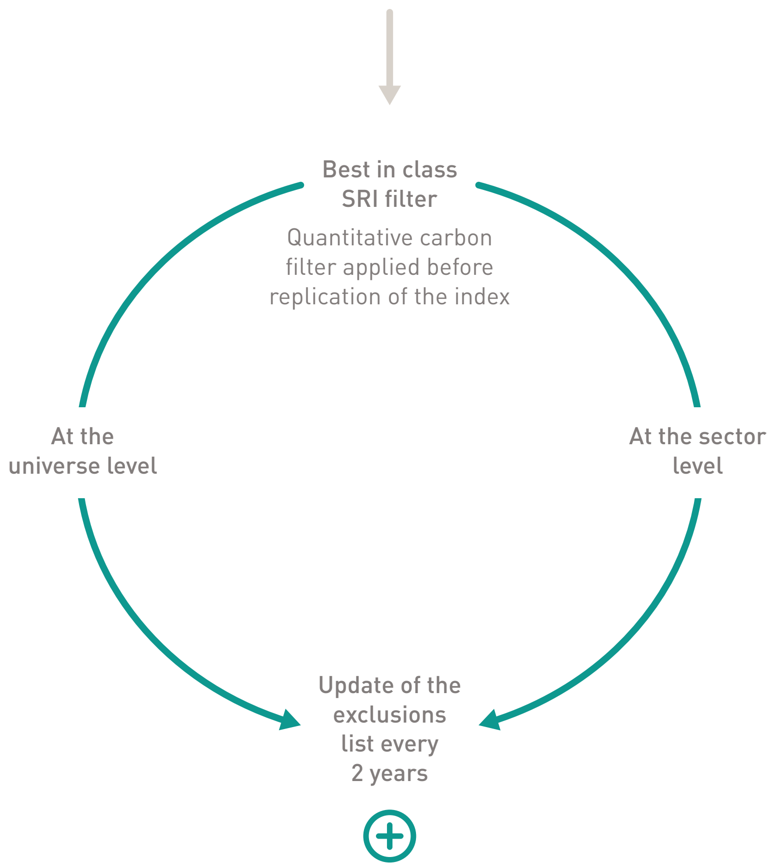
Taking this expansion further, in 2015 the public report presents for the first time a comparison of the energy mix attributable to ERAFP's equity portfolio with that of a current typical portfolio, firstly, and secondly with an energy generation breakdown for the International Energy Agency's '2°C' scenarios between 2030 and 2050.

This measurement is the first step in the definition of ERAFP's zero-carbon strategy. In coming years it will rely not only on the development of appropriate tools to manage climate challenges but also on the experience it has already accumulated, particularly in the area of decarbonization, such as for the low-carbon equity mandate awarded to Amundi.

ERAFP:
A 100% SRI
INVESTOR

DECARBONIZATION METHOD APPLIED TO THE ASSETS OF THE LOW-CARBON, INDEX-LINKED MANAGEMENT MANDATE

Amplify the positive results of **best in class** ★



At the universe level:
Exclusion of 5% (in weight) of companies with the highest carbon intensity, all sectors included.

At the sector level:
Exclusion of 20% (in weight) of companies with the highest carbon intensity in each sector (metric ton CO_2/€ revenue).

Very positive results:
Reduction in carbon intensity of around **35-40%** compared with the MSCI EMU

Advantages:

Simple method that complies with the SRI guidelines and the **best in class** philosophy with a very limited impact on the risk/return profile.

Leverage for joining the PDC.

IMPACT OF THE SRI APPROACH ON INVESTMENTS' FINANCIAL PERFORMANCE

The subject's relatively short history and complexity make it impossible to draw any definitive conclusions. While it is difficult to demonstrate that the SRI approach has had a positive impact on the performance of ERAFP's investments, it would be just as misplaced to assert that the opposite was true. Nevertheless, within the framework of its monitoring of investments, ERAFP strives to monitor the signals that are most likely to shed light on the financial impact of its SRI approach.

Sovereign bonds

There is a strong negative correlation between a state's SRI rating and the cost of its debt (from a statistical point of view, the SRI score 'accounts for' the vast majority of the yield). These indicators can prove complementary in the evaluation of a state's debt 'quality'. For example, while it is obvious that a low SRI score is the reflection in a different shape of weakness that could come to light in a financial crisis, a high SRI score does not guarantee that a country's public finances will be well managed.

Equities and corporate bonds

ERAFP's SRI guidelines are applied in all of its mandates, based on procedures that may vary from one manager to the next. While the mandatees notably use different sources for their extra-financial research, they must analyse and select issuers using the criteria and rules that ERAFP has drawn up.

The monitoring of the managers' performance since the launch of the first equity mandates in 2007 shows that, on average, the managers have created value, as ERAFP's equity portfolio has generated a relatively pronounced outperformance relative to its benchmark index. This leads to the conclusion that SRI is not a handicap to financial performance. Intuitively, one could even consider that the factoring in of environmental, social and governance criteria should lead to the selection first and foremost of securities in companies that use natural resources efficiently, seek to manage their human resources proactively and in a forward-thinking way, have corporate governance practices that conform to the most advanced standards and are therefore better placed to generate positive, stable results over the long term.

Nevertheless, over the period of observation, the outperformance of ERAFP's portfolio has not been uniform across all its mandates, nor has it been constant over time; this is because the SRI approach is only one of many factors that can influence a fund's financial performance, others being management style and quality, behavioural biases and market conditions, for example, which makes it particularly difficult to isolate SRI's specific impact.

ERAFP'S EQUITY PORTFOLIO SIGNIFICANTLY OUTPERFORMS THE BENCHMARK INDEX

THE BOND PORTFOLIO

THE BOND PORTFOLIO TOTALLED
€12.512 MILLION
AT AMORTISED COST

At 31 December 2015, the bond portfolio (excluding convertible bonds) totalled €12,512 million at amortised cost, representing 63.6% of ERAFP's total assets. It is split between fixed-rate sovereign and equivalent bonds (35.3% of total assets, or €6,953 million), inflation-indexed bonds (10.1%, or €1,993 million) and corporate bonds (18.1%, or €3,566 million).

At end-2014, the bond portfolio held unrealised gains equivalent to 17.5% of its amortised cost.

Public sector bonds

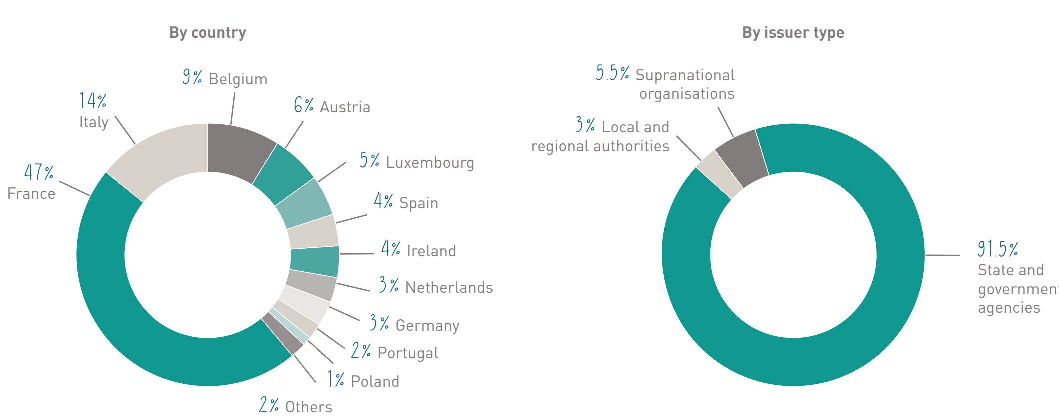
ERAFP manages all public sector bonds directly; their value at amortised cost at end-2015 was €8,946 million.

Sovereign bonds accounted for 92% of this portfolio, more than 40% of the Scheme's total investments. They include fixed-rate bonds and inflation-indexed bonds issued by euro-zone sovereigns as well as bonds guaranteed by these sovereigns, such as bonds issued by *Kreditanstalt für Wiederaufbau,* the German national development bank.

The other public sector bonds are issued by OECD local and regional authorities and supranational institutions.

BREAKDOWN OF PUBLIC SECTOR BONDS BY COUNTRY AND ISSUER TYPE (AT AMORTISED COST)

Source — ERAFP



Euro-denominated corporate bonds

In 2015, ERAFP renewed the mandates for euro-denominated corporate bonds, awarding three active mandates to Amundi, La Banque Postale AM and Natixis AM. In addition to delegated management, which remains preponderant, ERAFP invested for the first time in external subordinated debt funds, in the amount of €35 million, with the objective of gaining exposure to a bond segment not covered by the mandates and which requires active management.

At the year-end, the 'euro credit' class, consisting of euro-denominated corporate bonds, totalled €3,245 million at amortised cost, or 16.4% of ERAFP's total assets.

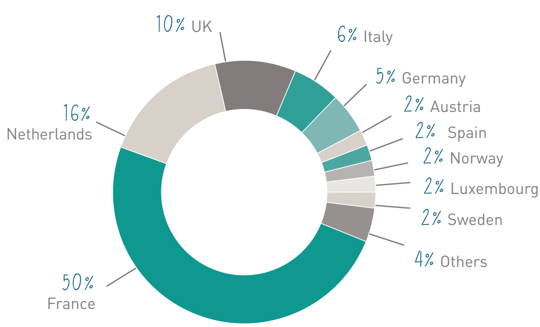
Note that the euro credit managers also manage a part of the Scheme's cash and cash equivalents.

€3,245 M
OF EURO-DENOMINATED **CORPORATE BONDS** AT AMORTISED COST

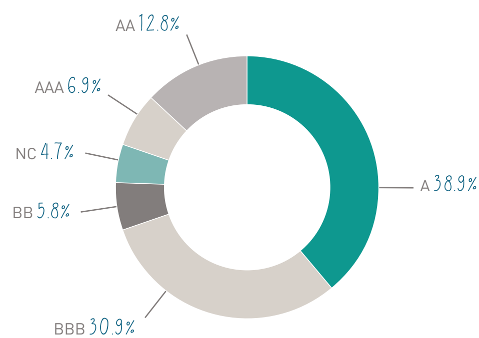
BREAKDOWN OF EURO-DENOMINATED CORPORATE BONDS BY COUNTRY, BY RATING AND BY SECTOR AT 31 DECEMBER 2015 (AT AMORTISED COST)

Source — ERAFP

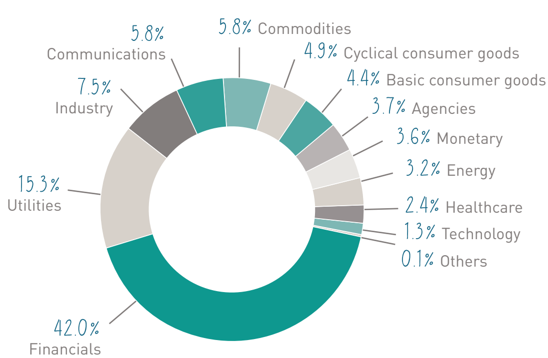
By country



By rating



By sector

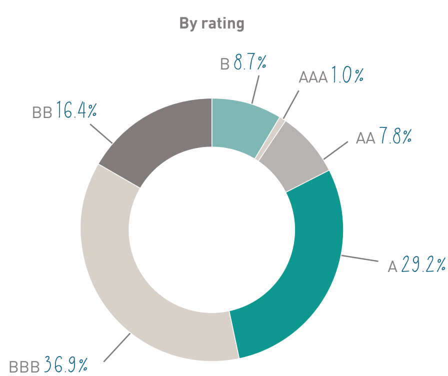


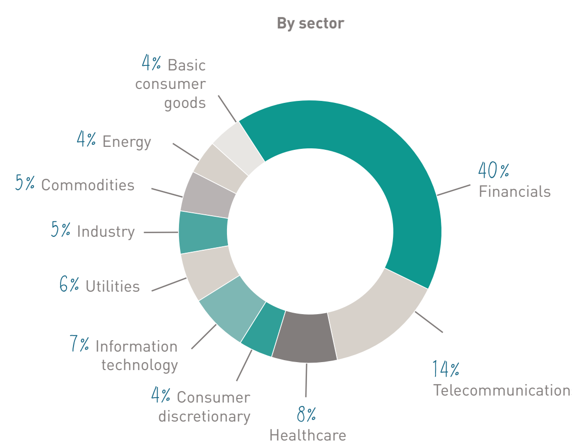
Dollar-denominated corporate bonds

The dollar-denominated corporate bond sub-portfolio was created in 2014, and at 31 December 2015 it totalled €320 million at amortised cost, representing 1.6% of ERAFP's total assets.

BREAKDOWN OF US DOLLAR-DENOMINATED CORPORATE BONDS BY SECTOR AND RATING AT 31 DECEMBER 2014 (AT AMORTISED COST)

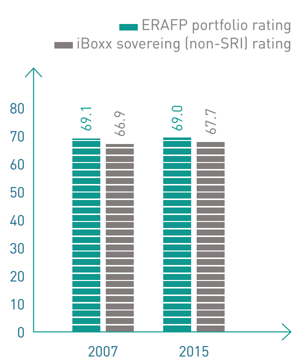
Source — ERAFP





CHANGE IN THE AVERAGE SRI RATING FOR SOVEREIGN BOND PORTFOLIO COMPARED WITH THAT OF THE INDEX

Source : Vigeo-Oekom



SRI PROFILE

Sovereign bonds

All issuers in ERAFP's portfolio pass its SRI criteria, according to the ratings produced by Oekom[2]. Indeed, all the countries whose bonds are part of ERAFP's portfolio have obtained an average SRI score of more than 50/100, the minimum rating defined in ERAFP's SRI guidelines for this asset class. In absolute terms, the portfolio's performance on the extra-financial front remained relatively stable between 2007 and 2015. The performance gap with the index (iBoxx Euro Sovereigns Eurozone) has narrowed, however, to 1.3 points at 31 December 2015 compared with 2.2 points at the end of 2007, when the first extra-financial assessment of the portfolio was carried out. This is attributable to the increase in the index's average rating, reflecting changes in its composition; before the financial crisis, the index included securities from countries whose financial rating has since been downgraded, whereas now it consists exclusively of securities issued by euro-zone countries that the financial rating agencies consider to be 'investment grade'. The former countries, whose

2 Rating agency partner of Vigeo, together responsible on ERAFP's behalf for analysing its asset portfolio quarterly and providing detailed reports on each of its sub-portfolios.

average SRI ratings are lower than those of other euro-zone countries, are no longer represented in the index today, which has therefore resulted in an automatic increase in the index's average SRI rating since 2007.

The portfolio's outperformance on extra-financial criteria relative to its benchmark is attributable mainly to the underweighting in the portfolio, relative to the index, of securities issued by countries with a below-average SRI rating and credit quality. The fact that there is a relatively strong correlation between the financial and extra-financial assessments of sovereign issuers supports this argument. It should also be noted that, given that the investment universe of euro-denominated securities issued by OECD countries is restricted and relatively homogeneous as regards the SRI characteristics of its components, the spread between the portfolio's average SRI rating and that of the index cannot increase significantly.

CARBON FOOTPRINT

The carbon intensity of ERAFP's portfolio is 2.1% lower than that of the iBoxx Euro Sovereigns Eurozone index. This positive difference is mainly attributable to the portfolio's overweighting of French government-issued securities. This relates to the fact that nearly three-quarters of the energy produced in France is from a low-carbon, nuclear source. So while the share of renewable energies in its energy mix remains relatively low, France's ratio of greenhouse gas emissions to GDP is one of the euro zone's lowest.

Local and regional authority bonds

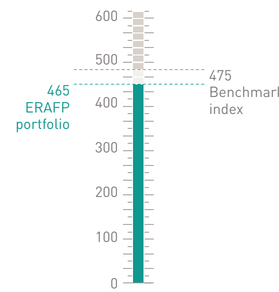
As in 2014, ERAFP did not subscribe to any local or regional authority bond issues in 2015, given the very low interest-rate environment and often relatively small size of their bond issues. The average SRI rating of ERAFP's portfolio has increased by nearly 50% since 2007 and is now significantly higher than that of the benchmark index. This is due not only to an improvement in the SRI ratings of the local and regional authorities represented in ERAFP's portfolio but also to the sale in previous years of local and regional authority issues that, from an SRI standpoint in particular, did not meet ERAFP's requirements, specifically in the area of extra-financial reporting. This very wide spread relative to the index thus reflects mainly the lack of portfolio representation of local and regional authorities that do not publish formal reporting on environmental, social and governance issues – which drags down their SRI rating – but which nevertheless form part of the index.

Carbon footprint not calculated for this sub-portfolio owing to a lack of available data.

3 Beyond Ratings has developed a methodology that makes it possible to take into consideration not only countries' territorial emissions but also those associated with their specific imports and exports.

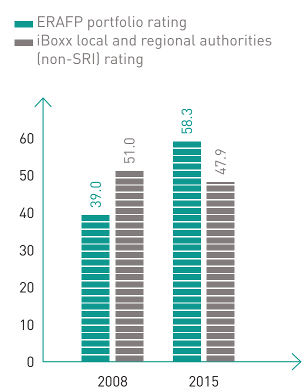
CARBON FOOTPRINT OF ERAFP'S SOVEREIGN PORTFOLIO AT 31 DECEMBER 2015

Source: Beyond Ratings - Trucost[3]



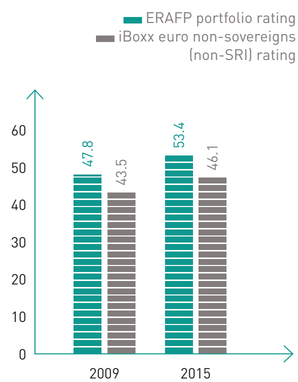
CHANGE IN THE AVERAGE SRI RATING FOR THE LOCAL AND REGIONAL AUTHORITY BOND PORTFOLIO COMPARED WITH THAT OF THE AVERAGE INDEX RATING

Source — Vigeo-Oekom



EURO-DENOMINATED CORPORATE BOND PORTFOLIO'S AVERAGE SRI RATING COMPARED WITH THAT OF THE INDEX

Source — Vigeo



Euro-denominated corporate bonds

The SRI performances of both ERAFP's euro-denominated corporate bond portfolio and the benchmark index (iBoxx Euro Non-Sovereigns) have improved since the launch of the first mandates in 2009. The portfolio's SRI rating of 53.4/100 now stands 7.3 points above that of the index.

The significant positive average SRI rating spread between the portfolio and the benchmark illustrates the relevance of the best in class approach in a universe of issuers with diverse ESG practices. Issuers of the bonds that make up the investment universe are split between four categories:

- **financial companies;**
- **non-financial companies;**
- **issuers of collateralised bonds[4];**
- **agencies[5],** which are private or public sector bodies more or less controlled by central governments or local or regional authorities.

The investment universe therefore comprises issuers of varying size, both listed and unlisted, that are attuned to varying degrees to the expectations of a wide range of SRI investors. In this context, the best in class analysis is particularly important because the SRI performance spreads between the best issuers and the remaining issuers are wider than in a relatively homogeneous investment universe, such as that of European large listed corporates.

The good SRI performance of these management mandates demonstrates the added value of ERAFP's SRI approach and the maturity in SRI terms of the asset management companies in question.

4 A collateralised bond is one for which interest and redemption payments are derived from income flows from an asset, which also serves to guarantee the bond.

5 For example, local authority banks such as Bank Nederlandse Gementeen (BNG) in the Netherlands and Caisse des Dépôts et Consignations in France.

CARBON FOOTPRINT

The carbon footprint of ERAFP's euro-denominated corporate bond portfolio is significantly higher (60%) than that of its benchmark index, the iBoxx Euro Non-Sovereigns. This difference results mainly from the portfolio's strong overweighting (9.2%) relative to the index of the utilities sector, which on average produces higher greenhouse gas emissions than other sectors. Indeed, in contrast with most of ERAFP's equity management mandates, bond mandates are not suited to a benchmarked management approach and can therefore diverge significantly from the composition of the index used as a benchmark for SRI rating or carbon footprinting.

The fact that the portfolio contains a significant proportion of utility sector securities is attributable to:

- **its defensive nature** (non-cyclical activity, regularity of financial flows, etc.), which managers favour in times of market volatility, of which 2014 to 2015 is an example;
- **the not-inconsequential number of undated bonds** issued by companies in this sector, these bonds offering relatively attractive yields.

Moreover, it should be stressed that, while the sector itself has a much higher than average carbon intensity, ERAFP's mandatees have prioritised the selection of companies with the best SRI and carbon track record within the sector; on average, the companies from the sector represented in the portfolio are 10% less carbon intensive than those of the index.

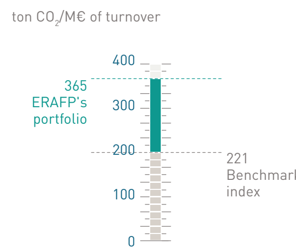
Dollar-denominated corporate bonds

This portfolio also has an average SRI rating that is quite significantly higher than that of its benchmark index; as mentioned with reference to the euro-zone corporate bond portfolio, this illustrates the relevance of the best in class approach in investment universes that are composed of issuers with relatively heterogeneous environmental, social and governance practices, notably because of marked differences in terms of size and legal status.

It should also be noted that on average, this portfolio obtains significantly lower SRI scores than the euro-zone corporate bond portfolio. This is because North American companies are generally less effectively assessed than their European counterparts in terms of environmental and social issues, notably because of poorer transparency in the US. Moreover, ERAFP's assessment system assigns a preponderant importance to social aspects, in particular relating to the promotion of labour-management dialogue and protection of the rights of employee representatives, in respect of which North American companies score less highly than their European counterparts.

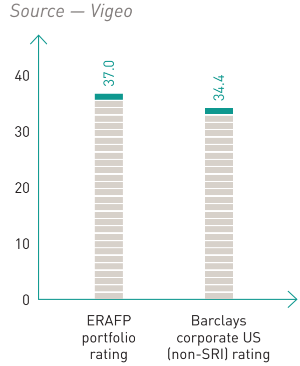
CARBON FOOTPRINT OF THE EURO-DENOMINATED CORPORATE BOND PORTFOLIO AT 31 DECEMBER 2015

Source: Trucost



COMPARISON OF THE DOLLAR-DENOMINATED CORPORATE BOND PORTFOLIO'S AVERAGE SRI RATING WITH THAT OF THE INDEX

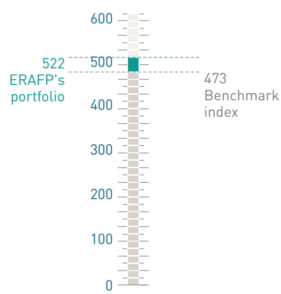
Source — Vigeo



CARBON FOOTPRINT OF ERAFP'S DOLLAR-DENOMINATED CORPORATE BOND PORTFOLIO

Source: Trucost

ton CO_2/M€ of turnover



CARBON FOOTPRINT

As is the case for euro-zone bonds, ERAFP's portfolio has a higher carbon footprint than its index, although the gap is considerably narrower (10%). Again this is attributable to its overweighting of the utilities sector. As securities selection within this sector has also adversely affected the fund's carbon footprint, this subject will be monitored in 2016, notably at the investment committee meetings with the mandatee in charge of this portfolio.

MORE DETAILS ABOUT ERAFP'S INVOLVEMENT IN CLIMATE CHANGE

THE CONVERTIBLE BOND PORTFOLIO

The currently active mandates have been awarded to Schelcher Prince Gestion for European investments and Lombard Odier Gestion for international investments.

The two convertible bond mandates have expanded gradually since their introduction in 2012. At 31 December 2015, the convertible bond portfolio totalled €446 million at amortised cost, representing 2.3% of ERAFP's total assets.

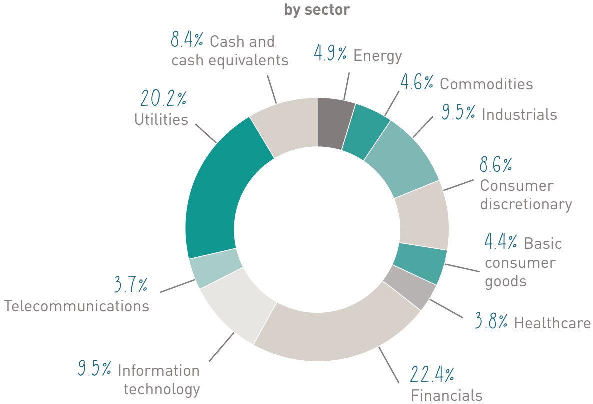
At end-2015, it had generated unrealised capital gains equivalent to 10.1% of its amortised cost.

THE CONVERTIBLE BOND PORTFOLIO TOTALLED
€446 MILLION
AT AMORTISED COST

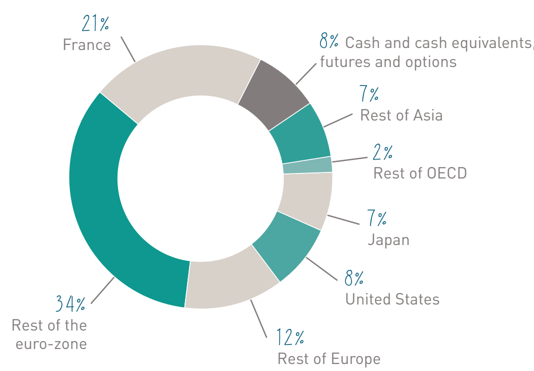
BREAKDOWN OF CONVERTIBLE BONDS BY SECTORS AND GEOGRAPHIC REGION AT 31 DECEMBER 2015 (AT MARKET VALUE)

Source — ERAFP

by sector



By geographic situation

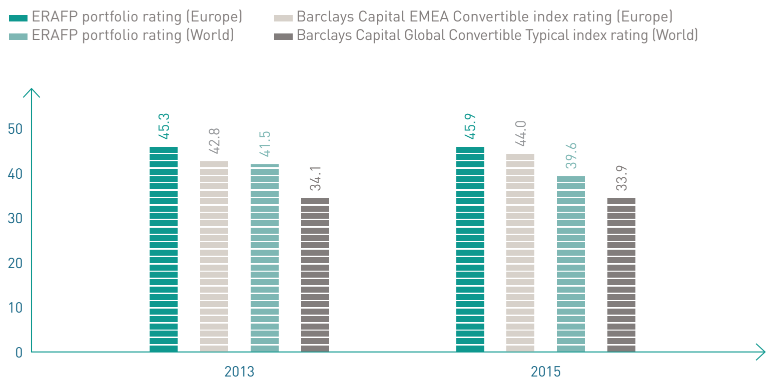


SRI PROFILE

As the regions covered by each mandate are different, two separate benchmark indices are used to assess the SRI quality of these two portfolios.

CHANGE IN THE SRI RATING OF THE CONVERTIBLE BOND PORTFOLIOS COMPARED WITH THE INDEX

Source : Vigeo



The European convertible bond portfolio posted an improved SRI performance whereas the international convertible bond portfolio's rating deteriorated. They both, however, continue to outperform their respective benchmarks, indicating that the best in class SRI strategy has been applied correctly in these two delegated management mandates.

The rating difference and its trend between the European and international portfolios can be attributed to the very strong contingent of North American and Asian issuers in the international portfolio. ERAFP's SRI guidelines place strong emphasis on the consideration of social criteria such as respect of union rights and the promotion of labour-management dialogue, which European companies generally take more into account in day-to-day management than their US and Asian counterparts, enabling them to achieve higher scores.

Carbon footprint not calculated for this sub-portfolio owing to a lack of available data.

THE EQUITY PORTFOLIO

At 31 December 2015, the equity portfolio totalled €4,966 million at amortised cost, representing 25.2% of ERAFP's total assets. It is split between euro-zone company equities (20.4% of total assets, or €4,017 million) and international blue chips (4.8%, or €949 million).

At 31 December 2015, ERAFP had delegated the management of its equity portfolio, with the exception of €20 million of direct investments in listed real estate funds, which enable it to benefit from diversified exposure to the European real estate sector and the liquidity of the stock market.

As regards the rest of the portfolio, the two asset classes were split between 13 mandates, including eight euro-zone equity mandates entrusted to Amiral Gestion, Amundi, AXA Investment Managers Paris, BNP Paribas Asset Management (two mandates), Edram, Rothschild et Cie Gestion, Sycomore AM and Tobam AM, and four international equity mandates entrusted to Comgest SA, Robeco Institutional Asset Management (North America region) and, since this year, Natixis-Loomis and Robeco Institutional Asset Management (Pacific region).

The stand-by mandate awarded to Amiral Gestion for the management of a French small cap equity portfolio was activated in 2015.

The equity portfolio had generated unrealised capital gains at end-2015 equivalent to 30.1% of its amortised cost, an increase from 2014 in a favourable market context.

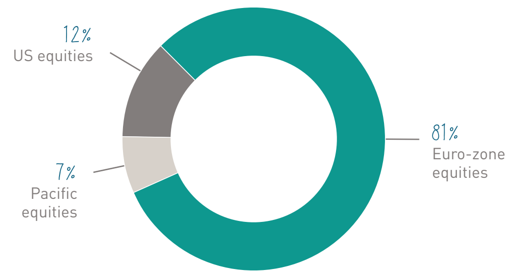
In terms of risk dispersion, the ten largest investment lines in the various euro-zone equity mandates represented 19.8% of the asset class at the year-end, a lower percentage than that for the ten largest lines in the MSCI EMU SRI benchmark index at that date (28.7%). Risk dispersion was even more marked in the international equities asset class: the ten largest investment lines represented just 18.2%. In contrast, the MSCI World benchmark index was even more dispersed than the portfolio (9.83% in the ten largest lines).

THE EQUITY PORTFOLIO TOTALLED €4,966 MILLION AT AMORTISED COST

THE EQUITY PORTFOLIO HAD GENERATED UNREALISED CAPITAL GAINS AT END-2015 EQUIVALENT TO 30.1% **OF ITS AMORTISED COST**

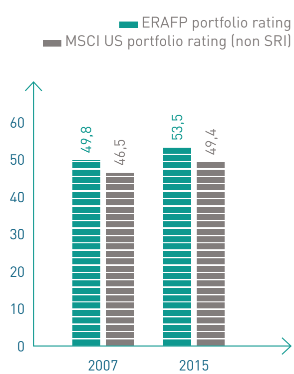
BREAKDOWN OF EQUITIES BY GEOGRAPHIC REGION AT 31 DECEMBER 2015 (AT AMORTISED COST)

Source — ERAFP



CHANGE IN THE SRI RATING FOR THE EURO-ZONE EQUITY PORTFOLIO COMPARED WITH THAT OF ITS INDEX

Source — Vigeo



SRI PROFILE

Euro-zone equities

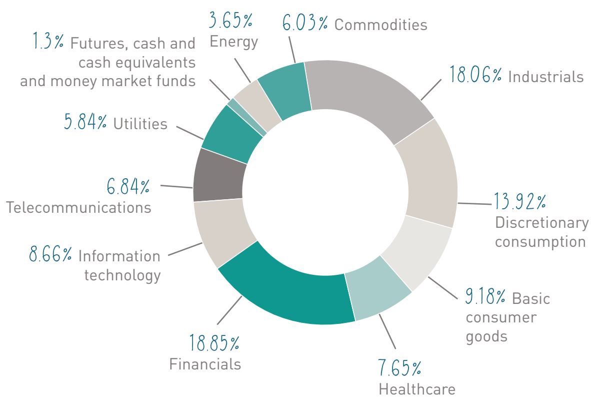
ERAFP's European equity portfolio's SRI rating has improved virtually continuously since 2007, as has its spread against the benchmark index's SRI rating. In both absolute terms (average SRI rating of 53.5/100) and relative to the index (positive 4.1 point spread), the portfolio's SRI performance is at its highest since the European equity mandates were first awarded.

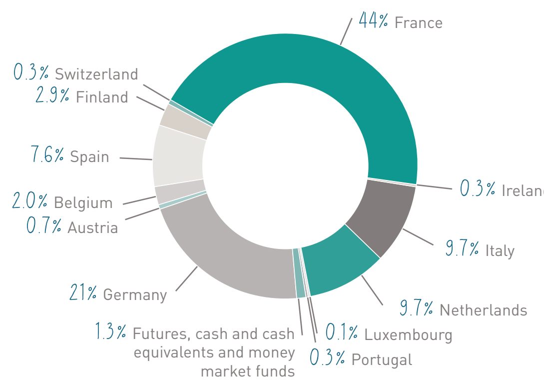
This positive trend is due not only to the now proven expertise of the asset management companies in euro-zone equities SRI management but also to their excellent understanding of ERAFP's specific SRI approach. On this point, regular meetings between ERAFP and its delegated asset managers ensure that the institution's expectations are properly taken into account in the portfolio stock-picking process.

It should also be noted that, while positive and widening, the gap between the portfolio's average SRI rating and that of the index is lower than the gap for the euro-denominated corporate bond management mandates (see page 48). As mentioned previously, this reflects the greater homogeneity of the European large listed corporates investment universe in terms of implementing social and environmental responsibilities; the benchmark index's relatively high score tends to show that they have reached a level of maturity in this regard.

BREAKDOWN OF EURO-ZONE EQUITIES BY SECTOR AND COUNTRY AT 31 DECEMBER 2015 (AT MARKET VALUE)

Source — ERAFP





North American equities

The first investments in listed North American equities were carried out in 2014 under two management mandates. In absolute terms, the portfolio's SRI ratings are significantly lower than those for ERAFP's euro-zone equity portfolios, confirming the relative immaturity of US corporates as regards corporate social responsibility principles and the alignment of their strategies with the need for sustainable development.

However, the portfolio's average SRI rating improved in 2015 and is now higher than that of its benchmark index, the MSCI EMU[37]. This increase can be partly attributed to ERAFP's continuing efforts to maintain dialogue with its delegated asset managers so that its guidelines and, more generally, its SRI expectations are duly taken into account.

CHANGE IN THE SRI RATING FOR THE NORTH AMERICAN EQUITY PORTFOLIO COMPARED WITH THAT OF ITS INDEX

Source — Vigeo

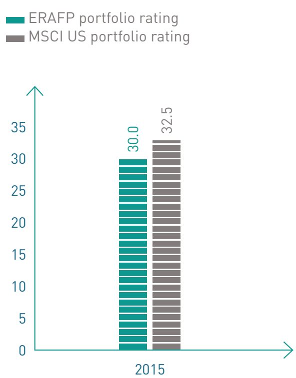
Pacific-region equities

In 2015, ERAFP awarded two mandates for the management of equities of listed Pacific-region companies. According to the assessment carried by Vigeo at end-2015, on average the consolidated portfolio scored less highly for SRI than its benchmark index. These results should be interpreted with circumspection insofar as Vigeo's coverage of the companies represented in the portfolio is less extensive than for the other asset classes it analyses.

This bias related to the rating agencies' lower coverage of a part of the investment universe is particularly marked for one of ERAFP's two delegated asset managers, which invests in mid-sized Asian companies. In the case of this mandatee, the management process relies largely on dialogue with the portfolio companies aimed at increasing their transparency. For its part, ERAFP ensures at its regular meetings with the managers that its expectations are duly taken into consideration, although this is not explicitly reflected in the ratings that Vigeo awards.

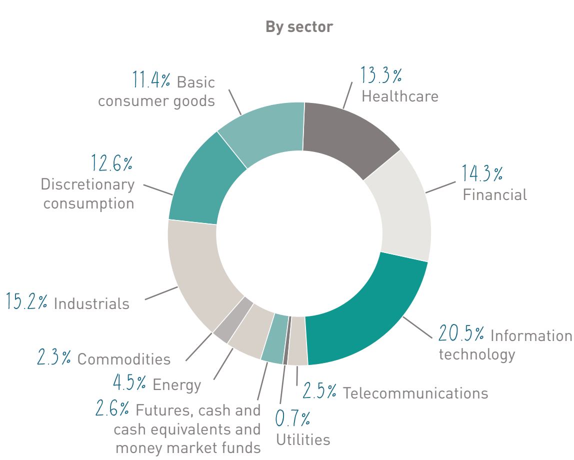
SRI RATING OF THE PACIFIC REGION EQUITY PORTFOLIO COMPARED WITH THE INDEX

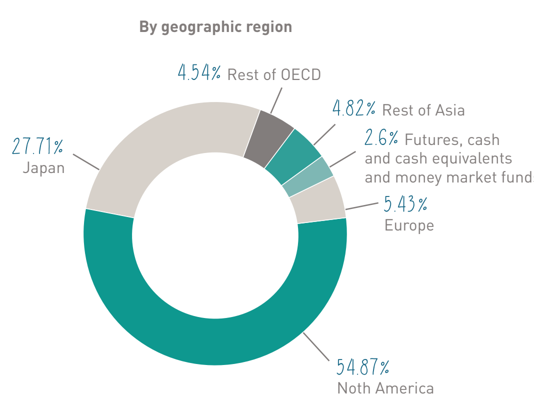
Source : Vigeo



BREAKDOWN OF INTERNATIONAL EQUITIES BY SECTOR AND GEOGRAPHIC REGION AT 31 DECEMBER 2015 (MARKET VALUE)

Source — ERAFP

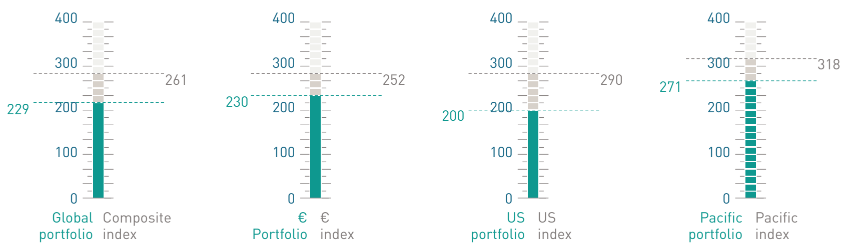




CARBON FOOTPRINT

CARBON FOOTPRINT OF ERAFP'S EQUITY PORTFOLIOS

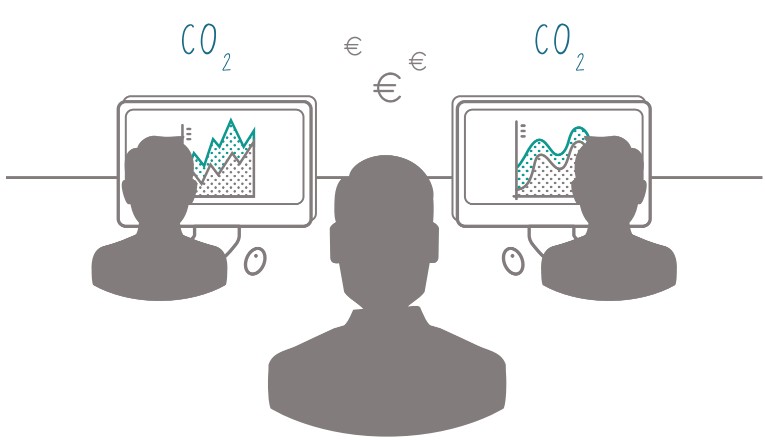
Source: Trucost



Composite index: index reconstituted to take into account the portfolio's allocation between the euro-zone and the North American and Pacific regions.

Whether at consolidated level or for each geographical region, ERAFP's portfolio has a lower carbon footprint than its benchmark index. At the aggregate level, the portfolio's carbon intensity is 12% lower than that of the index. This strong relative performance can be attributed almost exclusively to a positive stock-picking effect within each sector, which is a sign of the effectiveness of ERAFP's best in class SRI approach.

CEDRUS-AMLEAGUE PLATFORM INITIATIVE



VIRTUAL MANAGEMENT PLATFORM

CEDRUS/AMLEAGUE

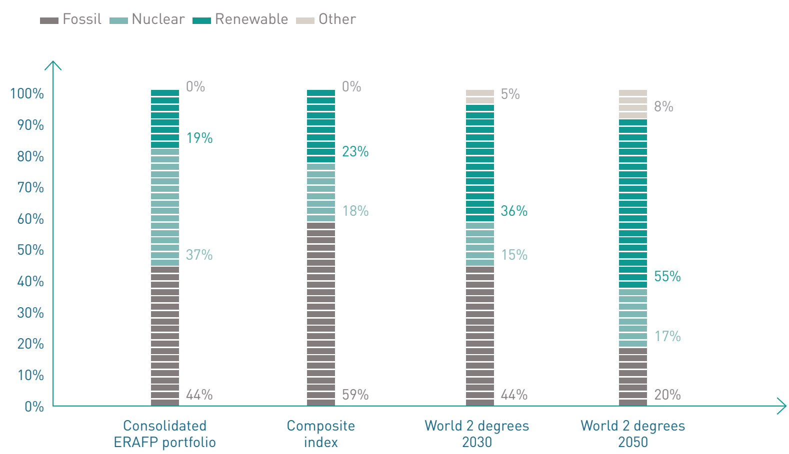
The ERAFP has commissioned amLeague and Cedrus AM to implement a platform that allows asset managers to demonstrate their ability to reduce the carbon intensity of a notional portfolio of international equities over a significant time period.

A FIRST STEP TOWARDS COMPLIANCE WITH INTERNATIONAL CLIMATE OBJECTIVES: MEASURING THE 2°C ALIGNMENT OF ERAFP'S EQUITY PORTFOLIO

ENERGY MIX OF ERAFP'S EQUITY PORTFOLIO COMPARED WITH THE INTERNATIONAL ENERGY AGENCY'S SCENARIOS (AT AMORTISED COST)

Source — Trucost, based on the IEA's scenarios

Alignment with the milestones of a 2°C scenario of ERAFP's consolidated equity portfolio and the benchmark index



Measured using the method described above, the carbon footprint illustrates the exposure of ERAFP's portfolios to the transitional risk associated with climate change. A portfolio with a lower carbon footprint than its benchmark index is made up of shares in companies that, all other things being equal, will on average be better placed than their competitors to tackle the challenges brought about by the necessary energy transition.

However, this measurement cannot provide information on the portfolio's level of alignment with the various climate scenarios drawn up by the Intergovernmental Panel on Climate Change (IPCC). As a reminder, the 195 countries that took part in COP 21 at the end of 2015 undertook to limit global warming to 2°C above the pre-industrial temperature - and to use their best endeavours to limit it to 1.5°C.

The International Energy Agency breaks these climate scenarios down into energy road maps, which define coherent energy mixes at the global level at various dates. Although it consists simply of a snapshot at a given moment, the comparison of the portfolio's energy mix (consolidated energy mixes[39] of the portfolio companies that generate electricity) with the IEA's energy mix scenarios for 2030 and 2050 provides an initial basis for reflexion on the changes that ERAFP will need to factor into its equity investments in order to gradually align its portfolio with a '2°C scenario':

- at the end of 2015, the proportion of fossil fuels in ERAFP's portfolio was already aligned with that advocated by the IEA for 2030;
- the proportion of renewable energies, on the other hand, will have to almost double in order to reach the target level for 2030;
- conversely, the proportion of nuclear energy will have to be significantly reduced between now and 2030;
- the transition to much less carbon-dependent methods of power generation will need to accelerate from 2030 in order to achieve alignment with the 2050 target energy mix.

Over the coming years, the gradual rebalancing of ERAFP's portfolio for better alignment with the most favourable climate scenarios can be envisaged through several approaches:

- **changes to the energy strategies and mixes** of the electricity generating companies already in ERAFP's portfolio: with this in mind, ERAFP is involved in an IIGCC shareholder engagement initiative aimed at promoting strategies to European utility companies that enable them to significantly reduce their greenhouse gas emissions. Through its support of the RE100 initiative, ERAFP is also encouraging listed companies to obtain all of their energy from renewable sources over the long term and thereby increase demand in this sector (see page 43);
- **the selection for the portfolio of companies** that have a low-carbon energy mix or a long-term strategy based on the development of renewable energies; accordingly, in 2015 ERAFP launched a project to review its SRI guidelines, with as one projected change an increase in the weighting of climate considerations;
- **continual dialogue** with ERAFP's delegated asset managers in order to ensure that they duly factor climate considerations into their management decisions.

CHRISTIANA FIGUERES,
EXECUTIVE SECRETARY
OF THE UNITED NATIONS FRAMEWORK CONVENTION ON CLIMATE CHANGE

The Paris Climate Change Agreement has broken all records for the number of governments signing on the opening day of an international treaty book. There can hardly be a better or more decisive signal to investors that the global transformation towards a low-carbon, sustainable world is now irreversible. The closer the speed and direction of policy and investment, the faster we will achieve that essential transformation. That is why, at a time when it is critical that all financial and business models align with the goals in the new Agreement, I welcome the efforts by ERAFP to meet their fiduciary responsibility as the world moves towards a new growth and development model finally decoupled from greenhouse gas emissions.

6 Breakdown of current electricity production by primary energy source; this breakdown is expected to change given in particular the investments made by various operators to reduce their dependence on fossil energies.

THE MULTI-ASSET PORTFOLIO

THE MULTI ASSET PORTFOLIO TOTALLED € 518 MILLION AT AMORTISED COST

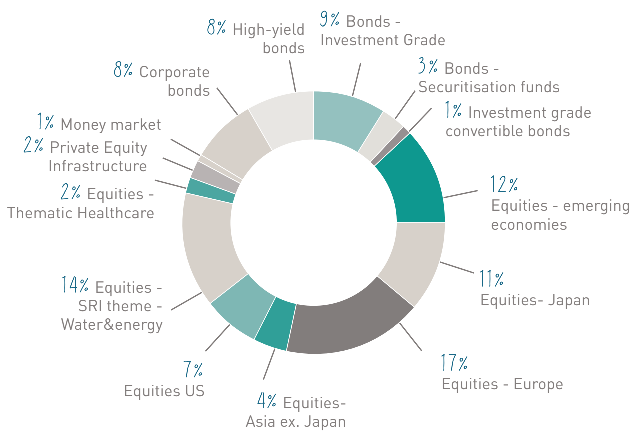
Amundi holds this mandate, which was first awarded in 2013, with the aim of maximising performance while complying with ERAFP's SRI Charter and optimising the risk-return ratio by implementing a diversified, flexible and dynamic asset allocation. The fund is managed using a risk budget, based on a fundamental approach, with no benchmark constraint. The risk budget for this fund has been set at 25% for 2015.

At 31 December 2015, the multi-asset portfolio totalled €518 million at amortised cost, representing 2.6% of ERAFP's total assets. It had generated unrealised capital gains equivalent to 5.8% of amortised cost, down from their level in 2014. The fund benefited essentially from its exposure to Japanese and European equities, whereas emerging assets, to which its exposure was reduced, underperformed.

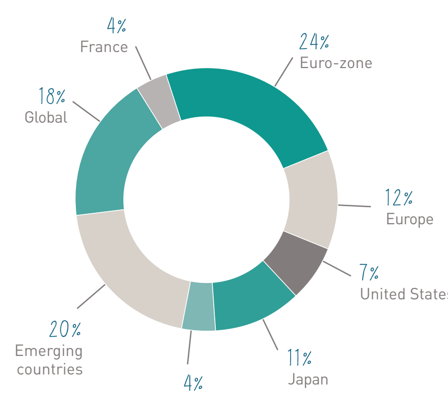
BREAKDOWN BY ASSET CLASS AND GEOGRAPHIC REGION AT 31 DECEMBER 2015 (AT AMORTISED COST)

Source — ERAFP

By asset class



By geographic region



SRI PROFILE

ERAFP has developed specific application provisions regarding its SRI approach to management of the multi-asset fund-of-funds portfolio. It decided that the SRI eligibility of funds open to selection by Amundi would be determined based on:

- **an analysis of the management process** put in place; the only funds eligible are those based on a best in class SRI approach or adopting a particular environmental (reduction of climate change, protection of water resources, etc.) or social (healthcare, combating poverty, etc.) approach;
- **or an analysis of the fund's SRI quality** based on the SRI rating of each issuer represented in the fund.

THE REAL ESTATE PORTFOLIO

THE REAL ESTATE PORTFOLIO TOTALLED €980 MILLION AT AMORTISED COST

ERAFP's real estate portfolio comprises five diversified SRI asset management mandates:

- **three French real estate mandates,** two of which are managed by AEW Europe SGP (including ERAFP's headquarters building) and one by La Française REM;
- **two European real estate mandates,** one managed by AXA Real Estate IM SGP, the other by LaSalle IM.

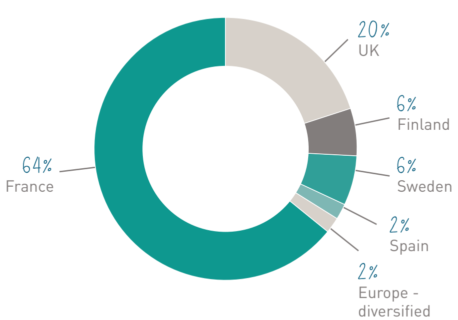
At 31 December 2015, the real estate portfolio totalled €980 million at amortised cost, representing 5.0% of ERAFP's total assets. The portfolio's unrealised capital gains increased, representing 5.4% of its amortised cost, and resulting from a significant increase in the value of independently appraised assets.

The real estate portfolio committed to investing €60 million in the Fonds de Logement Intermédiaire.

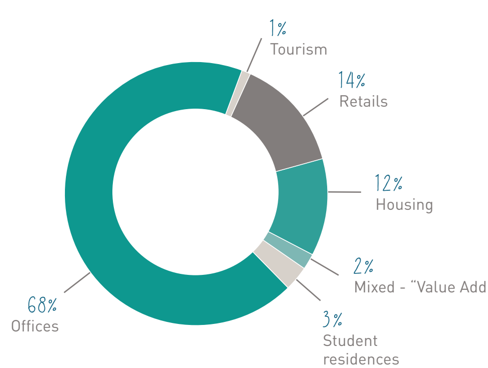
BREAKDOWN BY SECTOR AND GEOGRAPHIC REGION AT 31 DECEMBER 2015 (AT AMORTISED COST)

Source — ERAFP

By geographic region



By sector



SRI PROFILE

ERAFP has developed a demanding and innovative SRI process for real estate assets, adapting the five values of its SRI Charter to the asset class. It not only focuses on the real estate assets' environmental impact, but also integrates the challenges of social progress, respect for human rights, democratic labour relations and good governance into their management. In this respect, taking account of these challenges throughout the entire management chain is of primordial importance.

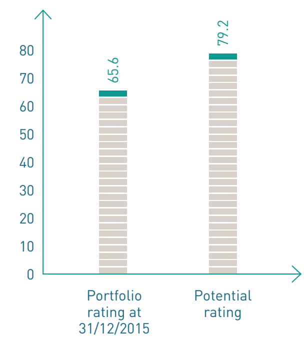
This approach also aims to adapt the best in class principle to the specific nature of the real estate asset class by incorporating a dynamic approach consistent with the life span of the assets. In practical terms, this is reflected in a dual SRI performance dimension for the real estate concerned:

- a relative performance that compares the extra-financial characteristics of these buildings and their management (lease, use, maintenance) with other buildings of the same type (same usage and type of construction, equivalent location);
- a dynamic performance that aims to raise each asset to best in class status, using a potential SRI rating estimate at the date of acquisition.

In summary, only real estate assets with a high SRI performance within their category at the time of acquisition or those with high potential for improvement can be selected for ERAFP's portfolio.

AVERAGE SRI RATING OF THE CONSOLIDATED REAL ESTATE PORTFOLIO

Asset managers



ENGAGEMENT **STRATEGY**

ÉRIC LOISELET,
DIRECTOR OF THE FORUM POUR L'INVESTISSEMENT RESPONSABLE

When it was drawn up in 2012, ERAFP's shareholder engagement policy was an innovation in the French institutional investment arena. Today, faced in particular with the challenge of climate change, we need to carry on the work of alerting society to controversial corporate practices and to measure the results of initiatives aimed at changing them. In concert with other SRI stakeholders, ERAFP can magnify this engagement's impact.

Shareholder engagement includes all forms of dialogue between one or more investors and one or more issuers. It may be collaborative, in other words led by a group of investors, or limited to exchange between a single investor and a single issuer. ERAFP tends to favour collaborative engagement, insofar as:

- **a group of investors** can exert more influence capitalistically on a company than an investor in isolation;
- **the resources needed** to carry out the engagement (research, time, etc.) can be pooled between the participants;
- **it facilitates the sharing of good practice** among investors.

The general meeting is an important date in the company calendar, providing an opportunity for dialogue with shareholders as it requires them to give their opinion directly on a certain number of agenda items.

Since 2012, ERAFP has formalised its shareholder engagement approach by adopting guidelines that define both priority engagement themes and its general meeting voting policy.

Dialogue can also be initiated with a regulatory authority in order to bring about change in the regulatory framework governing investors' activity, in which case the engagement is generally collaborative, as investors join forces to exert more influence on the regulator. Within the IIGCC, specifically in connection with preparations for COP 21 in Paris, ERAFP lobbied in support of:

- **the mandatory publication** - in the public domain particularly - of institutional investors' exposure to climate risks;
- **the introduction of a price for carbon.**

COLLABORATIVE INITIATIVES

In 2015, ERAFP continued its shareholder engagement initiatives on a number of environmental, social and governance fronts, via both collaborative initiatives and various investor networks and platforms, including:

- **the United Nations Principles for Responsible Investment (PRI)** on the themes of fighting corruption, managing human resources, and supply chain working conditions;
- **the Extractive Industries Transparency Initiative (EITI);**
- **Mirova,** Natixis Asset Management's dedicated responsible investment subsidiary, on hydrocarbon exploration in the Arctic and supply chain working conditions in the textile and IT industries.

At the same time, ERAFP joined two collaborative engagement initiatives in 2015:

- the first, initiated by the Institutional Investors Group on Climate Change (IIGCC), aiming to promote strategies to European utility companies that enable them to significantly reduce their greenhouse gas emissions;
- the second, initiated by ShareAction/RE100 and run by the Climate Group and the Carbon Disclosure Project, encouraging listed companies to develop a 100% renewable energy supply over time.

In order to tackle the 'Combating aggressive tax optimisation practices' priority engagement theme, in 2015 ERAFP joined the working group set up by the PRI to identify tax-related corporate governance risks. Within the framework of this initiative, ERAFP helped to draft a guide designed to

- **describe** the existing situation;
- **propose a list of questions** to ask companies in the context of shareholder engagement;
- **and identify good practice** in the area of tax responsibility.

2 **COLLABORATIVE ENGAGEMENT INITIATIVES** IN 2015

BREAKDOWN OF COLLABORATIVE INITIATIVES SUPPORTED BY ERAFP, BY PRIORITY ENGAGEMENT THEME

1- Fight against climate change - IIGCC - Mirova - RE100 / ShareAction	**2- Prevention of social risks in the supply chain** - PRI - Mirova - ICCR
3- Consistency between companies' commitments to sustainable development and their lobbying practices - IIGCC - ITIE	**4- Fight against aggressive tax optimisation practices** -PRI

Generally speaking, the objective of these collaborative initiatives is to question issuers about their practices, asking them to explain and, if necessary, improve them.

In addition to written exchanges, the engagement coordinators organise meetings with willing issuers in order to explain the expected level of transparency and the best practice in their sector, and to discuss the issuers' intended action plans for the coming years.

INTERIM RESULTS (31 DECEMBER 2015) OF ENGAGEMENT ACTIONS CARRIED OUT BY ERAFP AS PART OF THESE COLLABORATIVE INITIATIVES:

		Number of letters signed by ERAFP	Number of dialogues coordinated by ERAFP with issuers
PRI	Combating corruption	23	1
PRI	Working conditions in the agricultural supply chain	34	1
PRI	Employee relations	27	1
Mirova	Hydrocarbon exploration in the Arctic	2	0
Mirova	Working conditions in the textile industry supply chain	3	2
Mirova	Working conditions in the IT industry supply chain	2	0
IIGCC	*Lobbying*	67	4
IIGCC	Carbon risk management in the European utilities sector	3	3

In 2015, as part of collaborative initiatives, ERAFP:

- **signed** 161 letters requesting explanations of issuers' practices;
- **coordinated** the resulting dialogue with 12 issuers.

A VOTING POLICY THAT IS CONSISTENT WITH PUBLIC SERVICE VALUES AND DEMANDING OF LISTED ISSUERS

ERAFP's policy for voting at general meetings (GM) is updated annually, in order to draw lessons from each general meeting season and thereby gradually improve the consistency and completeness of the policy.

The equity asset management companies implement the policy on its behalf. ERAFP ensures it is correctly implemented and positions expressed are consistent by coordinating voting by the asset managers for a number of companies. In 2015, this sample comprised 40 major French companies and 20 major international companies.

For the 40 French GMs that ERAFP monitors in depth, at around 6% the average rate of shareholder opposition to management-proposed resolutions remains low, and essentially in line with previous years.

In this, France's second year of 'Say on Pay', the average rate of shareholder opposition to corporate officer remuneration resolutions increased (90% approval rate in 2014 compared with 88% in 2015), which is partly attributable to the near-3% average increase in executive pay over the period in question.

On other governance subjects, ERAFP welcomes in particular the increasing proportion of women on boards of directors (up to 36% in 2015 from 31% in 2014) as well as that of independent directors, which nevertheless remains below 50% (46% in 2014 and 47% in 2015).

For the 20 international GMs that ERAFP monitors in depth, at 4% the average rate of shareholder opposition to management-proposed resolutions is slightly lower than that observed on the French sample.

Resolutions relating to remuneration policies attract little opposition internationally (5.9%), whereas pay levels are significantly higher than those seen in France, the average overall pay package of chief executives in the international sample being 2.3 times higher than that of their French counterparts.

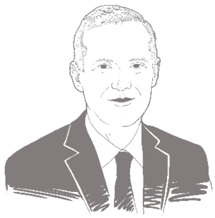
Meanwhile, at 59% the proportion of independent directors remains higher than that observed in France, whereas conversely, the process of increasing gender balance on boards is at a less advanced stage, with on average only 26% women directors.

Concerning more specifically voting in respect of shares held by ERAFP, the asset management companies voted more frequently against the resolutions proposed. Indeed, via its delegated management companies, ERAFP voted against 32% and 41%, respectively, of the resolutions tabled by the management of the French and international companies it monitors in detail. The main themes opposed concerned:

- **managers' remuneration;**
- **appropriation of earnings** (dividend distribution) in cases where the company's proposal seemed irresponsible: distribution in excess of net income, excessive debt, imbalance between shareholders' and employees' remuneration, significant restructuring carried out during the year, etc.;
- **the appointment of new directors or renewal** of existing mandates if the board lacked independence or had a poor gender balance, or if certain directors held an excessive number of board appointments.

Lastly, in 2015 ERAFP supported various outside resolutions, including six relating to the fight against climate change.

MORE DETAILS ABOUR ERAFP'S



GILLES SCHNEPP, LEGRAND CHIEF EXECUTIVE OFFICER

The compensation of Legrand's executives and managers is set with the aim of creating long-term value for all the Group's stakeholders by retaining and empowering talented individuals. The details of this compensation, which is subject to stringent financial and non-financial performance criteria, are provided annually in our registration document.

THE LEGRAND GROUP IS ONE OF THE ONLY CAC 40 COMPANIES FOR WHICH **ERAFP RECOMMENDED VOTING** IN FAVOUR OF THE CHIEF EXECUTIVE OFFICER'S COMPENSATION

FRANCE

Governance indicators for the sample	2015	2014
Gender balance of boards	36%	31%
Independence of boards	47%	46%
Average pay of chief executive (€)	3,689,856	3,588,105

	2015	2014	2013	2012	
Resolutions (excluding those submitted by shareholders) under close review by ERAFP	772	821	658	309	
Average adoption rate per GM of resolutions proposed by management	94%	94%	96%	94%	Overall results
Resolutions (excluding those submitted by shareholders) rejected by the GM	4%	0%	0%	1%	Overall results
Resolutions (excluding those submitted by shareholders) adopted by less than 90% of the votes	17%	20%	13%	18%	Overall results
Resolutions (excluding those submitted by shareholders) adopted by less than 70% of the votes	6%	5%	1%	4%	Overall results
ERAFP votes (excluding resolutions submitted by shareholders) in favour of the resolution	68%	61%	62%	66%	ERAFP votes
ERAFP votes in favour of a dividend distribution	61%	44%	43%	-	ERAFP votes
Average adoption rate per GM of resolutions concerning a dividend distribution	96%	99%	-	-	ERAFP votes
ERAFP votes in favour of resolutions concerning executives' remuneration	17%	20%	-	-	ERAFP votes
Average adoption rate per GM of resolutions concerning executives' remuneration	88%	90%	-	-	ERAFP votes
ERAFP votes in favour of appointments of directors	67%	72%	-	-	ERAFP votes
Average adoption rate per GM of resolutions to appoint directors	95%	94%	-	-	ERAFP votes

INTERNATIONAL

	2015	2014
Gender balance of boards	26%	25%
Independence of boards	59%	64%
Average pay of chief executive (€)	8,522,796	7,345,514

		2015	2014
	Resolutions (excluding those submitted by shareholders) under close review by ERAFP	196	287
Overall results	Average adoption rate per GM of resolutions proposed by management	96%	95%
Overall results	Resolutions (excluding those submitted by shareholders) rejected by the GM	0%	0%
Overall results	Resolutions (excluding those submitted by shareholders) adopted by less than 90% of the votes	12%	13%
Overall results	Resolutions (excluding those submitted by shareholders) adopted by less than 70% of the votes	0%	5%
ERAFP votes	ERAFP votes (excluding resolutions submitted by shareholders) in favour of the resolution	59%	62%
ERAFP votes	ERAFP votes in favour of a dividend distribuiton	54%	33%
ERAFP votes	Average adoption rate per GM of resolutions concerning a dividend distribution	93%	100%
ERAFP votes	ERAFP votes in favour of executives' remuneration	0%	10%
ERAFP votes	Average adoption rate per GM of resolutions concerning executives' remuneration	94%	93%

AT COP 21, ERAFP JOINED 38 **INVESTORS FROM ALL OVER THE WORLD** TO SIGN THE ENERGY EFFICIENCY INVESTOR STATEMENT.

ERAFP JOINED TWO INVESTOR COALITIONS IN 2015

The Portfolio Decarbonization Coalition

On 22 May 2015, within the framework of Climate Finance Day[7], ERAFP joined the Portfolio Decarbonization Coalition (PDC), an initiative run by the United Nations Environment Programme (UNEP), and the Carbon Disclosure Project.

This initiative reflects:

- **the continuation** of the Montreal Protocol commitment that ERAFP made in September 2014 at the annual Principles for Responsible Investment conference, to calculate and disclose the carbon footprint of its equity portfolio;
- **its intention to increase** its research into and action on decarbonization.

In December 2015, subsequent to COP 21, the PDC was made up of 25 investors managing total assets of more than $600 billion, considerably more than the $100 billion target set at the coalition's September 2014 launch.

G20 Energy Efficiency Investor Statement

MORE DETAIL ABOUT THE STATEMENT

In December 2015, at COP 21, ERAFP joined 38 investors from all over the world to sign the Energy Efficiency Investor Statement. Through this statement investors recognised the need to increase the inclusion of energy efficiency considerations in their investment process[8].

ERAFP: AN INVESTOR RECOGNISED BY ITS PEERS

ERAFP: first place in the 15th IPE Awards for the best SRI investment policy in Europe

Widely acknowledged as the largest annual gathering of European pension funds, the IPE Awards ceremony is a showcase for excellence in the European pension fund industry. This award recognised ERAFP's commitment to the consideration of extra-financial criteria, which have always been and remain to this day at the very core of the Scheme's investment decision-making and portfolio management processes.

7 Finance and climate conference sponsored by Caisse des Dépôts, the European Investment Bank and Paris Europlace, aimed at showcasing finance sector best practice, commitments and innovative thinking and how this supports public and private sector investment in favour of the climate.

8 http://www.unepfi.org/fileadmin/documents/EnergyEfficiencyStatement.pdf

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